Chilton's
DECEMBER 1979

DISTRIBUTION

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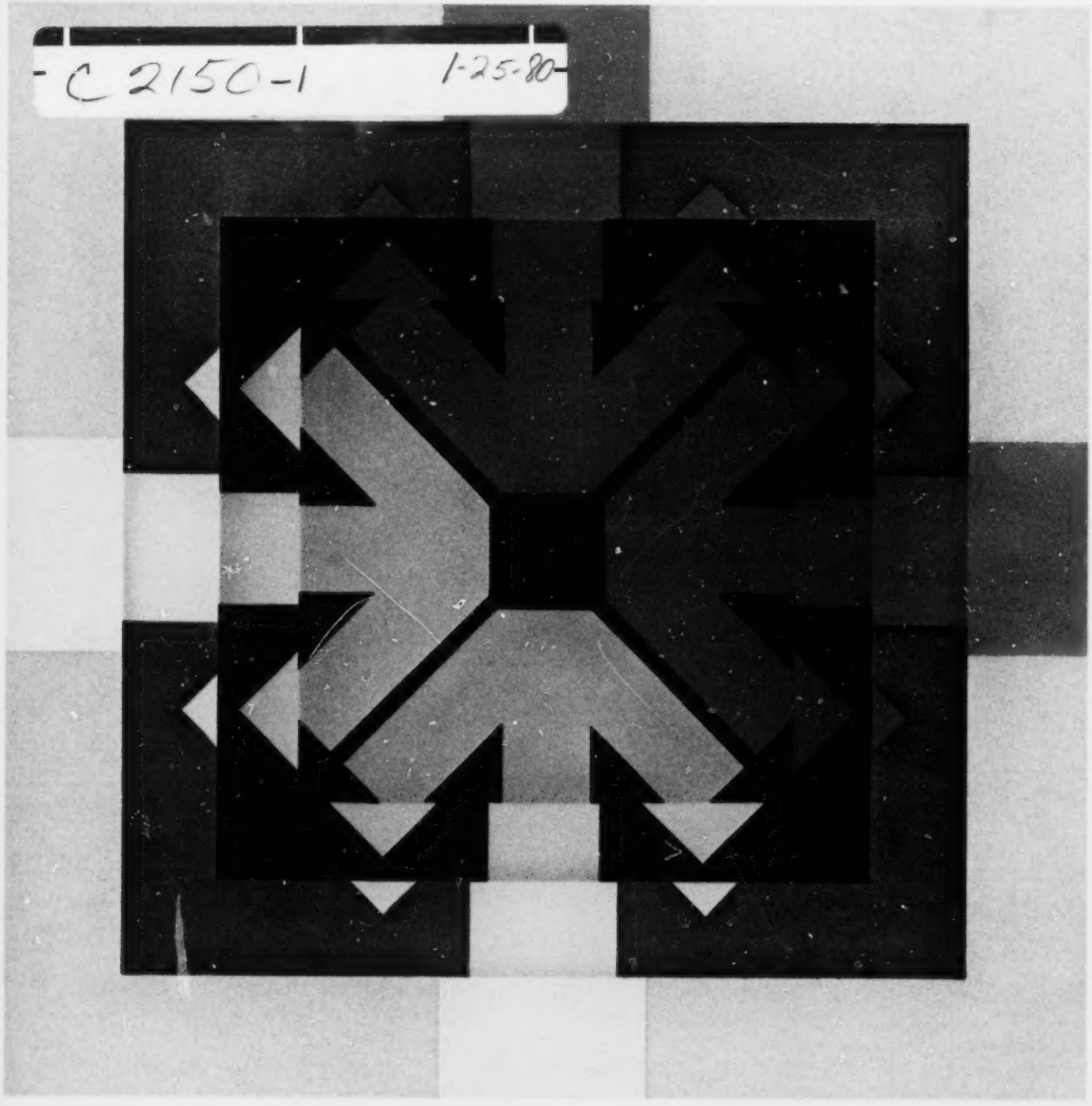

THE DIMENSIONS OF DISTRIBUTION

HOW DISTRIBUTION MANAGEMENT SEES ITSELF

1980 OUTLOOK: THE ROLE OF THE DISTRIBUTION MANAGER

HOW'S YOUR DISTRIBUTION PLANNING?

VOLUME 78, NUMBER 12

Chilton's

DISTRIBUTION

ESTABLISHED 1901

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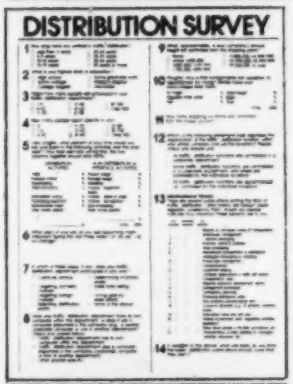

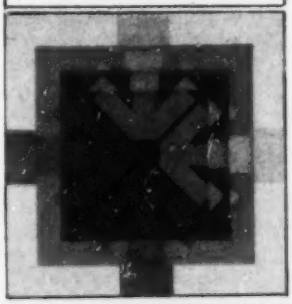

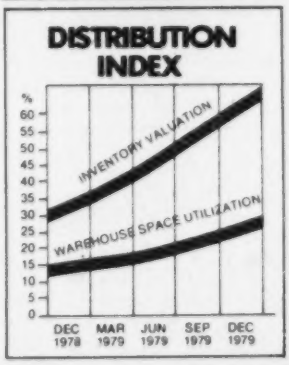

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The Cover: This art work illustrates the many dimensions of distribution uncovered in our massive survey of the distribution industry. The art comes from "Yale Management Guide to Productivity" and is supplied courtesy of the Eaton Corp.

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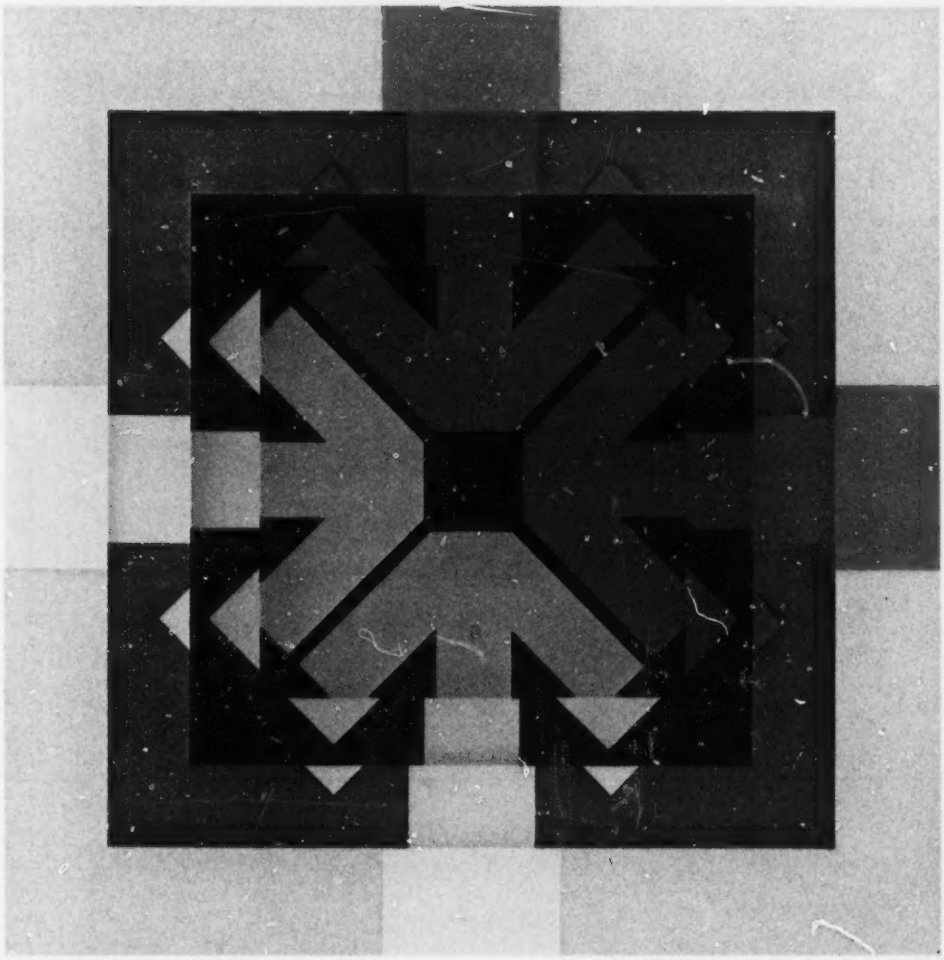
DISTRIBUTION (USPS 158100), (ISSN 0195-7244), owned by Chilton Co., is published monthly at Chilton Way, Radnor, PA 19089 (215) 687-8200. Chilton Co. is a division of American Broadcasting Companies Inc., New York, N.Y. Controlled circulation postage paid at Philadelphia, Pa. ©**CHILTON COMPANY 1979.** Subscription rate: U.S. and possessions, $20 per year. Canadian, $30. Foreign, $40. Single issue $2.00 except Distribution Guide Issue—$20 per copy. Postmaster: Send form 3579 to DISTRIBUTION, P.O. Box 2105, Radnor, PA 19089.

THE DIMENSIONS OF



Who runs distribution in this country?

How do they do it?

Those two questions are deceiving in their brevity. They are not at all simple, and getting the answers to them might just be a shade less difficult than landing a man on the moon.

But for the distribution industry, "the Eagle has landed" in the form of this magazine's survey of distribution executives.

We contacted nearly 24,000 distribution and traffic executives in the manufacturing industries throughout the U.S. Each received a three-page questionnaire comprised of 21 questions.

The questionnaire was—intentionally—not an easy one to fill out. We sought to get to the heart of a lot of information about these executives, and the complexity of the questionnaire reflected this effort.

Incidentally, pre-testing proved that executives long used to the complicated paperwork of distribution were not put off by the detailed questionnaire.

We received 2,246 complete, usable responses for a rate which our researchers consider quite a coup for a survey of this complexity.

What can these 2,246 people tell you? Plenty.

To get the message out, *DISTRIBUTION* will zero in on particular aspects of the survey in each issue throughout 1980.

In this first report, we profile the 2,246 executives who responded to our questions. In later reports, we'll go into detail. We'll re-

DISTRIBUTION

The largest, most important survey of distribution executives reveals a wealth of information about how distribution managers see themselves

veal the respondent's feelings on the debate of traffic and distribution and where the two should—or do—meet. We'll pinpoint which kind of executive spends a lot of time on specific non distribution activities. We'll detail the executives' purchasing of modes and equipment. And much more.

While the mass of information collected doesn't easily boil down to broad generalities, some overall statements are possible.

Our survey tells us that the distribution executive has a lot of job experience in the field. He's educated. He's a manager of people, departments, distribution points and equipment. The vast majority use computers in some way, though few have computer equipment dedicated to their department.

The survey also shows that most distribution departments are, to one degree or another, decentralized. And, significantly, the survey tells us that the majority of the executives are well versed in the goals of their departments as service organizations.

We also found that, while the execs spend most of their time on distribution-related work, they are spending more time on other duties.

In short, the entire *DISTRIBUTION* survey has much to say. And all will be aired during the coming year.

DIMENSION: ORGANIZATION

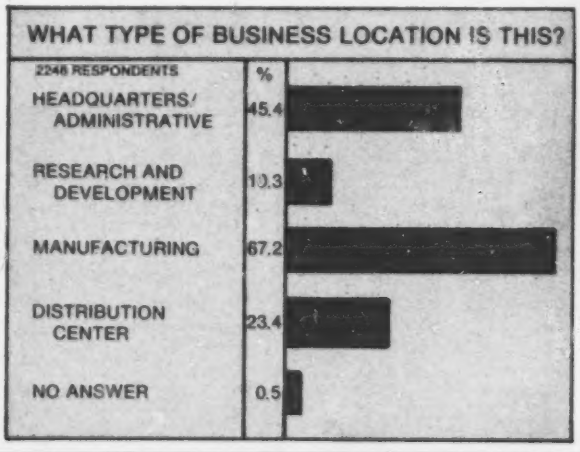
Multiple shipping locations are controlled out of the offices of the offices of the majority of the respondents. However, control is not complete in the majority of cases and a high degree of decentralization exists in the distribution and traffic organization.

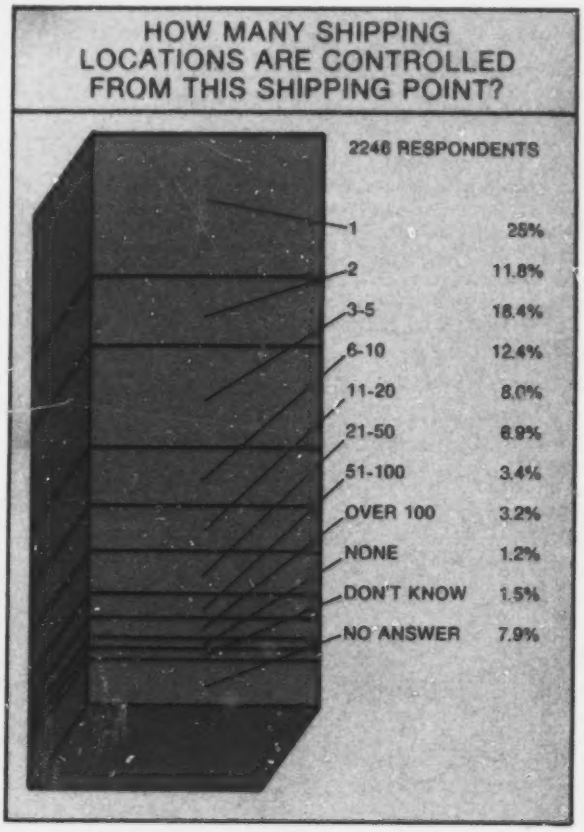
Nearly two-thirds of the 2,246 respondents noted that more than one shipping location is controlled from the shipping points at which they are located. And the majority reported that more than three shipping locations were controlled from their office sites.

As the accompanying chart illustrates, a substantial number of those responding have between two and ten shipping points under the control of their offices.

In most cases, traffic and distribution functions operate under a mixed bag of centralized and decentralized controls. Some 49.9 percent of the respondents indicated that such a mixture of control exists in their operations.

Nearly a third of the respondents said all traffic and distribution functions are fully controlled by a central department. And 17.5 percent said all traffic/distribution functions are fully decentralized.





DIMENSION: THE MISSION

Distribution executives take a long view of the activities and goals of their department.

When asked to check off which activities their department participates in, some 83 percent checked customer service first.

However, since distribution is intimately linked with serving customers, one wonders why the remaining 17 percent did not check the box. Further reports will examine this question.

Among the activities participated in, a distant second place is held by "selecting distribution points." About half of the respondents take part in the selection process.

Significant numbers of respondents are also involved in determining inventory levels, sales forcasting, timing special sales efforts and targeting domestic markets for their companies. These activities, not traditionally a part of traffic and distribution, are becoming more so.

With this trend in mind, it's of interest to study the way distribution executives spend their time on the job.

The accompanying table lists the averages of responses from those surveyed. Due to this averaging, the columns do not add up to 100 percent.

Also, note that each category was answered by different numbers of respondents. Because of this, it isn't possible to say precisely how much time the executive spends on which activity.

However, it is possible to judge the relative amount of time spent on particular activities. That is, within the context of the table, it is possible to get a ballpark estimation of where the distribution executive spends much time, and where he spends little time.

Looking at the table, it's obvious that most of the respondents spend the most time on the single activity of traffic. (Read the table this way: 2,175 respondents spend an average of 50 percent of their time on traffic. Another example: 717 respondents spend an average of 7.4 percent of their time on purchasing equipment.

After traffic, the duties of administration, inventory control and warehousing are about equal in demanding the executive's time. Order processing, purchasing equipment and international routing bring up the rear.

Non-distribution activities still take relatively small amounts of the distribution executive's time.

It's of interest to note that only a small percentage of the executive's time is spent on data processing.

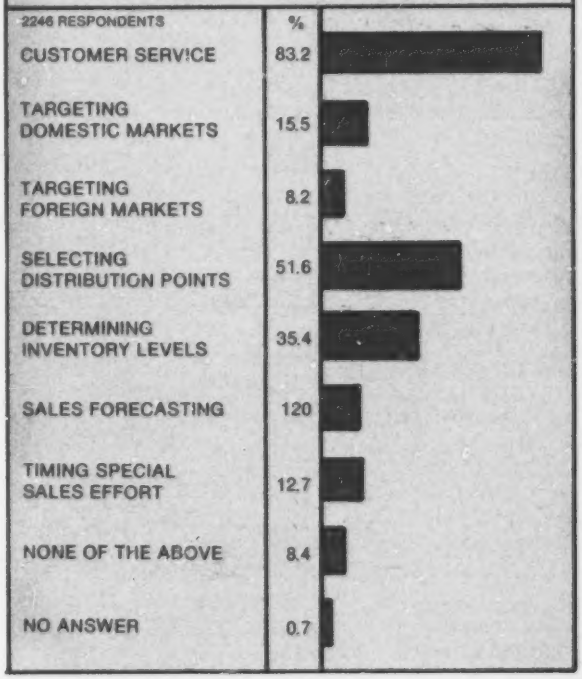
Of all respondents some 1,680 have access to a computer. Yet, according to the survey, only 569 spend any time at all on data processing.

This is another development which will be further detailed in future reports in this series.

HOW DISTRIBUTION EXECUTIVES SPEND THEIR TIME

Distribution Activities		Non Distribution Activities	
Traffic (2175)	50	Product design (114)	4.73
Inventory Control (1036)	14.4	Package design (475)	5.7
Warehousing (1234)	14.11	Marketing (370)	10.7
Order Processing (907)	13	Finance-Equipment Leases (400)	5.83
International Routing (815)	9.4	Letters of Credit (219)	6.19
Purchasing Equipment (717)	7.4	Site Selection (206)	4.44
Administrative duties (1573)	20	Data Processing (569)	7.9

IN WHICH AREAS DOES YOUR TRAFFIC/DISTRIBUTION DEPARTMENT PARTICIPATE IN ANY WAY?



DIMENSION: THE EXECUTIVE

The men and women who manage distribution for the nation's manufacturers are both educated and experienced.

Our survey reveals that the vast majority of respondents have been at work in the fields of transportation and distribution for a long time. As the chart indicates, some 87.9 percent have more than five years experience in these fields.

Even more impressive, the majority of respondents—some 53.6 percent—have at least 15 years in the fields.

Other researchers have found a trend towards the increased control of distribution by executives who have come from disciplines outside of distribution and transportation.

If that trend exists, then these "outsiders" haven't made a great deal of headway to date.

Instead, our research shows that the control of distribution is largely in the hands of people who have spent significant amounts of time in the field.

In addition to their on-the-job education, the respondents reported on their formal education.

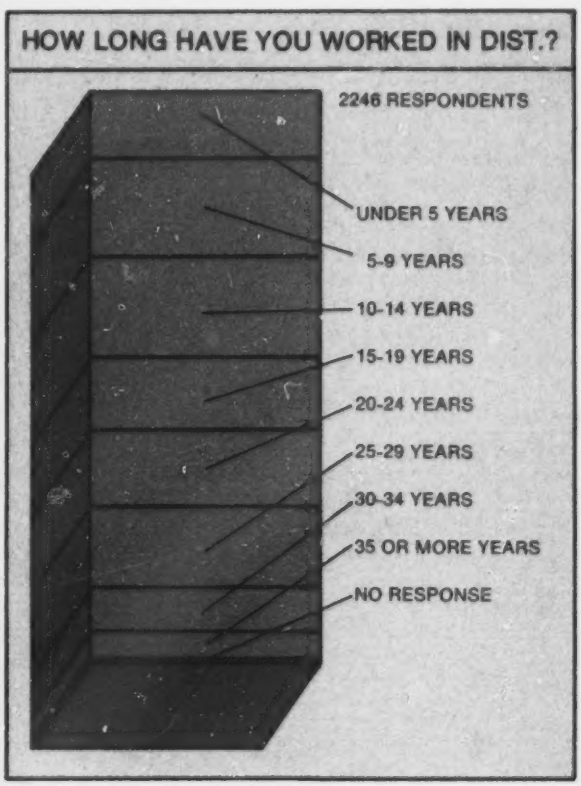
Out of the 2246 respondents, not a single one lacked a high school diploma. Also, the majority—87.3 percent—listed some formal education beyond high school.

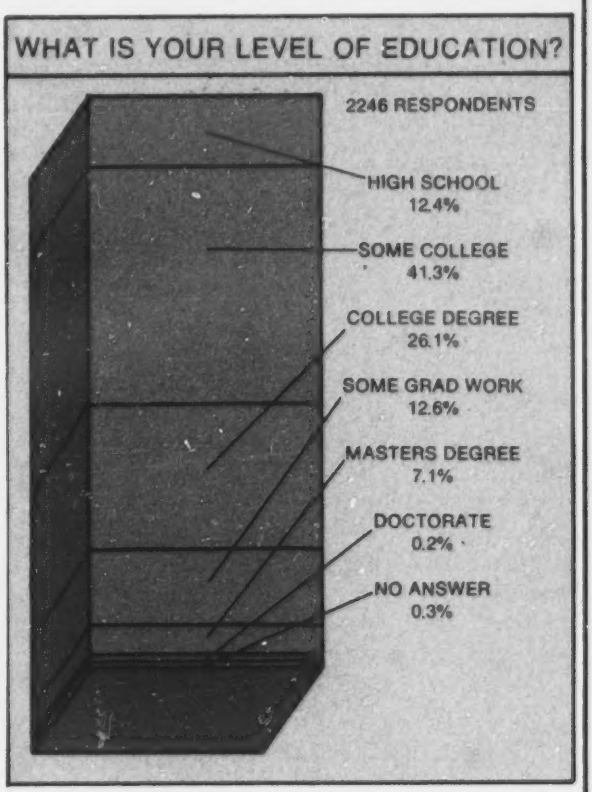
Interestingly, a large number of distribution executives went to college, but didn't graduate. The survey reveals that 41.3 percent of the respondents listed their highest educational attainments as "some college."

Another 46 percent reported that they had earned undergraduate degrees, and 19.9 percent went on to graduate work. Masters degrees were earned by 7.1 percent of the respondents.

Few received doctoral degrees—only 0.2 percent of those answering the questionnaire.

In future reports, DISTRIBUTION will correlate the length of time on the job and the level of education achieved.





DIMENSION: THE WORKPLACE

Our survey paints an interesting picture of the distribution executive's workplace.

First, the executive's office tends to be close to the corporate flagpole and the production lines. Note on the accompanying chart that more than two-thirds of the respondents have offices at the company manufacturing site.

This is no surprise, since distribution is often seen as the last step in the production process.

About 45 percent of the respondents work at corporate administration or headquarters locations. (In many cases, a variety of operations are carried on at one site. This is why the percentages on the chart do not add up to 100 percent.)

As illustrated, most respondents work for companies which employ more than 100 people at the distribution executive's location. Significantly, more than a quarter of the respondents work at locations where over a thousand people are employed.

The distribution executive works with people, and people work for the distribution executive. More than two-thirds of the respondents work in distribution or traffic departments which number more than six employees.

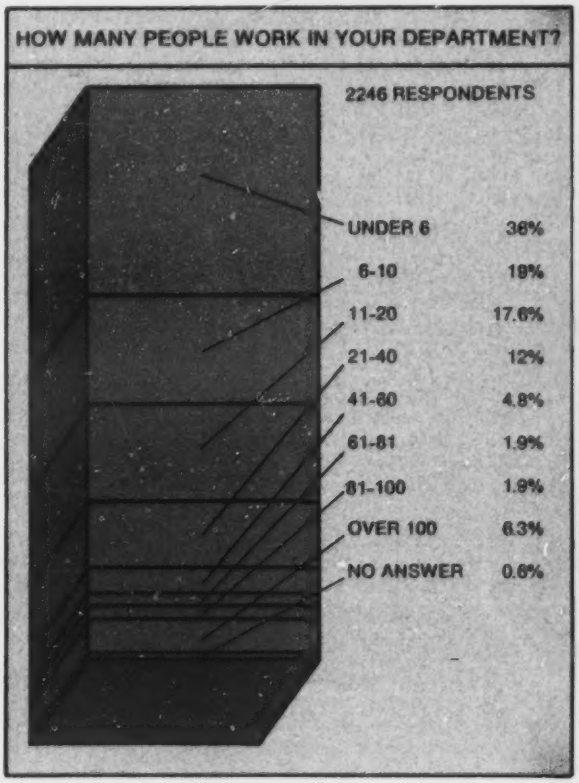
Of the respondents, an overwhelming 92.2 percent have employees who report directly to them. The majority of respondents, some 50.7 percent of them, manage between one and five employees.

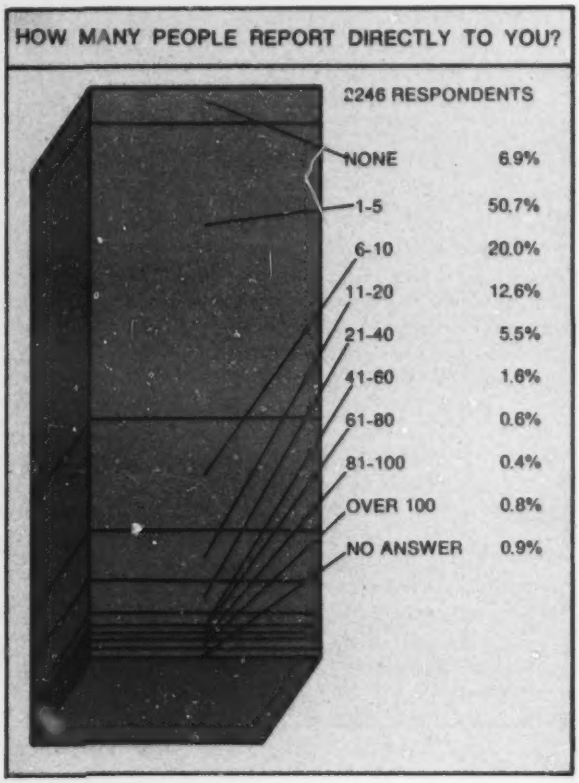
The distribution executive is computerized. Our survey found that 83.4 percent of the respondents have access to a computer.

However, the majority do not have a computer within their departments. Only 5.3 percent have their own departmental computer, while 75 percent use a computer that is elsewhere in the company.

Thus the picture of the distribution executive's workplace which emerges is one of a management location. The executive has physical access to the corporate production lines, and to the offices of the company's higher-level executives. He is a manager of people, with all of the opportunities and demands that entails. And he has the use of the computer.

In future issues, we will examine more closely how the executive makes use of this work environment.





1980

THE DECADE OF CHALLENGE FOR THE DISTRIBUTION MANAGER

Economic uncertainties in the next decade will make the DM indispensable to any corporate team. He will have to plan distribution strategies on the basis of contingencies and react instantly to shifts in supply, demand and cost.

By RICHARD A. LANCIONI, Associate Professor of Distribution, Temple University

Economics has often been called the dismal science, but in the last 10 years it has become the most important concern for distribution managers. The reason is the unpredictability that has taken over a once rather stable economy. Business cycle theory used to be a relatively good basis upon which to make economic forecasts, but ever since the recession of 1973-74, the U.S. economy has been affected by numerous external and uncontrollable forces which has created economic situations that are not easy to deal with. *Ceterus parabis* (all things being equal) use to be a favorite assumption of economists when developing their forecasts. But such a consideration can no longer be used, for the external factors of energy boycotts, more government regulation, and the instability in international money markets has created uncertainty and made economic forecasting a hazardous business. Stagflation, for example, an economic condition which is characterized by rising prices and recession, was thought to be an economic impossibility, yet it occurred in the 1973-74 recession and may develop again in the early part of 1980. Increasing government regulation in environmental and job safety areas have made the cost of doing business increase. The rise and fall of the dollar's value have made U.S. exports more attractive in overseas markets, but at the same time has made the U.S. balance of payments deficit grow each month. The deficit for 1979 is expected to reach $14.3 billion, a rise of $2.2 billion over the 1978 level.

The decade of the 80s will be a period of change and slower growth for the distribution manager. While the economy will expand, it will do so at a slower rate. As shown in Figure I, GNP (the total value of all goods and services produced in the U.S. in a year) rose at an annual rate of 7 percent from 1970 to 1975. In the period from 1975-79 it increased by 5 percent per year to forecasted level of $2.3 trillion in 1979. From 1980 through 1983 the growth rate will fall to a forecasted yearly level of only 3 percent per year to more than $2.6 trillion in 1983. The slower growth means that firms will be producing less and distributing fewer goods.

The forecasted slower growth in GNP is expected to manifest itself in lower per capita personal and disposable income. This is demonstrated in Figure II which illustrates the rise in per capita personal income and per capita disposable income from 1970-1983. Personal income, or the amount in wages paid to workers, rose by 6 percent a year from 1970-75. The growth rate dropped somewhat from 1975-1979 rising by 5 percent a year. The expected decline can be seen in the forecasted rise from 1980-83 of only 4 percent per year. The same trend is ascertainable for disposable income, or the amount of a worker's wage left over after taxes. After rising by more than 5 percent per year through 1979 to $7150 per person, it is forecasted to increase by only 2 percent per year through 1983.

The slower growth trends in the general economy will require distribution managers to adjust their operations to deal with the expected slowdown. This will require more long range planning on the part of the distribution function within a company and necessitate the need for the slower expansion of transportation fleets, fewer warehouse sites, and lower inventories. As a distribution manager of a large chemical company stated "the decade of the '80s will be a real challenge for my firm. We expect to have to maintain lower inventories, for our customers just won't be buying as much as they did 5 years ago.

Also, my firm will be more concerned about the cost of capital and the rate of return projects will have for the company. It will be important for me to know the financial returns of any distribution projects I develop over the next five years. Our top management is and will continue to ask for a financial justification of any new distribution project. Five years ago all I had to do was ask that we add a new storage depot or buy a couple of additional trucks without anybody being concerned about pay off. No more. Now I have to justify all of my expenditures. The 1980s will make top management more aware of how they are going to spend their limited dollars and seek the highest possible return. The pressure is indeed on distribution managers to perform in 1980s."

For 1980, the trends as reported in DISTRIBUTION'S Distribution Index show some of the possible changes that are likely to occur. The cumulative index (Figure III) which since December, 1977 has been rising each quarter is forecasted to decline by 4.3 percent in the first quarter of 1980 over the last part of 1979. The result is based on a survey of more than 100 shippers concerning their distribution plans for 1980.

In the transportation sector of the economy, truck shipments are forecasted to decline by 3 percent in the 1st quarter of 1980 as compared to the last period of 1979 (Figure IV). This is the first negative decline in this area for more than two years. Rail shipments are also expected to decrease as well, with a forecasted decline of 2.1 percent in the first quarter of 1980 as compared to the last part of 1979. Air shipments, too, will fall by 1.1 percent along with water shipments. The general decline in the transportation sector is an indication of the beginning of the recession expected to occur during the first part of 1980.

The inflation rate is forecasted to average more than 14 percent in 1979. This increase is reflected in the 6.3 percent rise in inventory valuation in the last part of 1979.

Inventory valuation is forecasted to rise by 8.1 percent in the first quarter of 1980 over the last part of 1979.

One distribution manager who makes up the index panel stated the "Cost of our raw materials have increased more rapidly in the last six months, than in the past. It is difficult for my firm to keep up with the increases. We are hedge-buying now because everything in 1980 will cost more. The inflation rate is the single biggest unknown in our planning cycle."

Warehouse space utilization is also on the rise as demand slackens and inventories begin to rise. The Distribution Index forecasts a 4.2 percent increase in this area for the first part of 1980. The inventory buildup is further (Fig. VI) highlighted by the increases at the wholesaler and retailer levels. Inventory rose from a value of $130 billion in 1977 to a forecasted $198 billion in 1980, an increase of more than 34 percent for 3 years. Major declines are expected for materials handling expenditures. Shippers indicate that they will spend 4.1 per-

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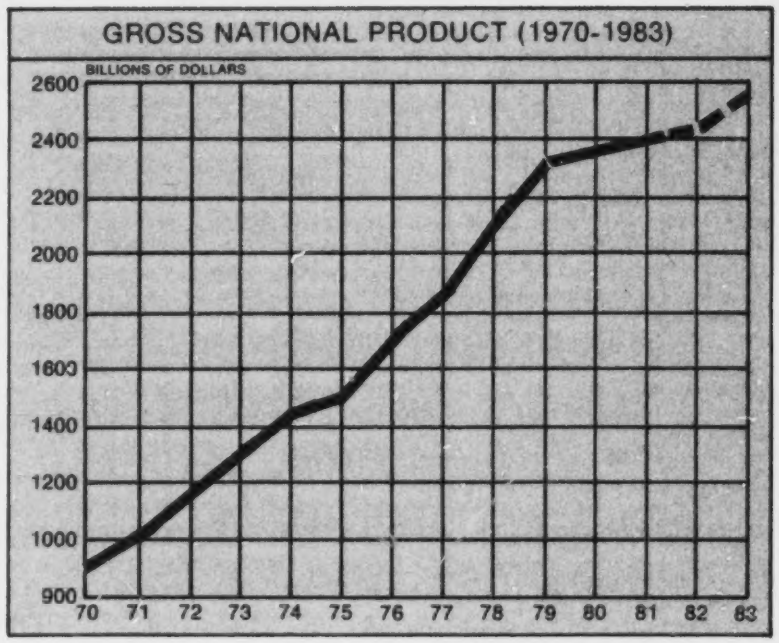

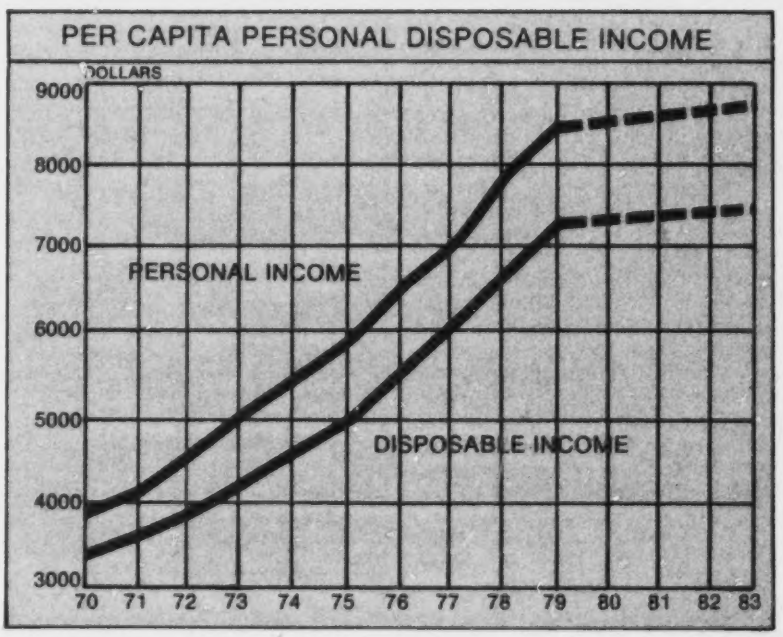

cent less for materials handling equipment in the first part of 1980 then they did in the last quarter of 1979.

Unemployment is also forecasted to rise in 1980. The national unemployment rate is expected to rise to a level of 7.5 percent in 1980. In the distribution sector shippers forecast a modest drop of 0.1 percent in employment among distribution personnel in the first part of 1980. The decrease is small, but the decline should become more substantial in the later part of 1980.

Non-Economic Changes

The 1980s will be marked by other changes that will make it a more uncertain period for the distribution manager. Fuel supplies will continue to be in short supply and the cost of fuel will escalate. This element will have to be factored into the planning horizon of a firm's distribution operation. Questions must be answered on how current customer service levels can be maintained? What types of consolidation and shipping programs must carriers develop for their shipper customers? What form will warehouse location configurations be like to service market demand in the light of the shortage of energy? Is private fleet operation feasible with rising fuel costs?

Another factor which will make the decade of the 80s a challenge for distribution managers is the pending changes in the regulatory structures of the rail and motor carrier industries. What types of service disruptions, if any, will result from deregulation? Will the cost of transport service increase because of it? Will shippers become the *captives* of motor and rail carriers? Will there be regional monopoly power for the carriers? Will there be regional monopoly power for the carriers? Will the short haul be elimi-

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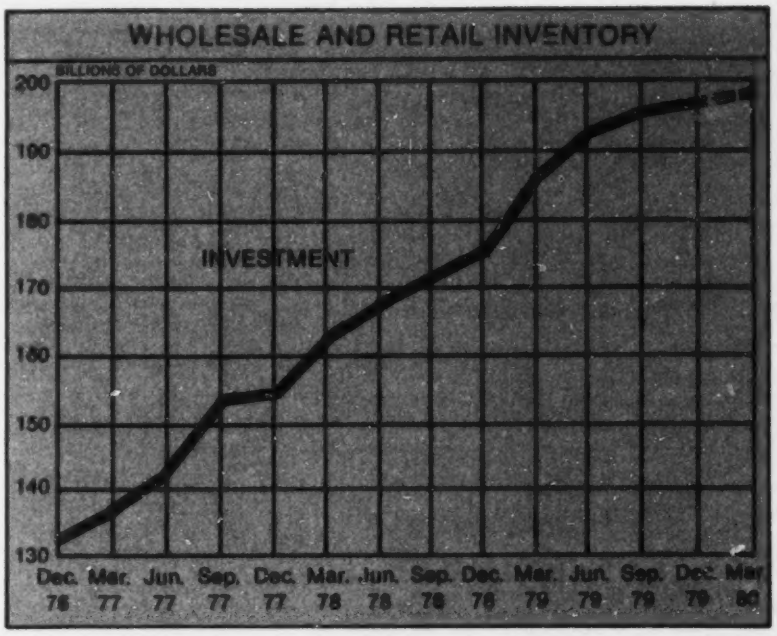
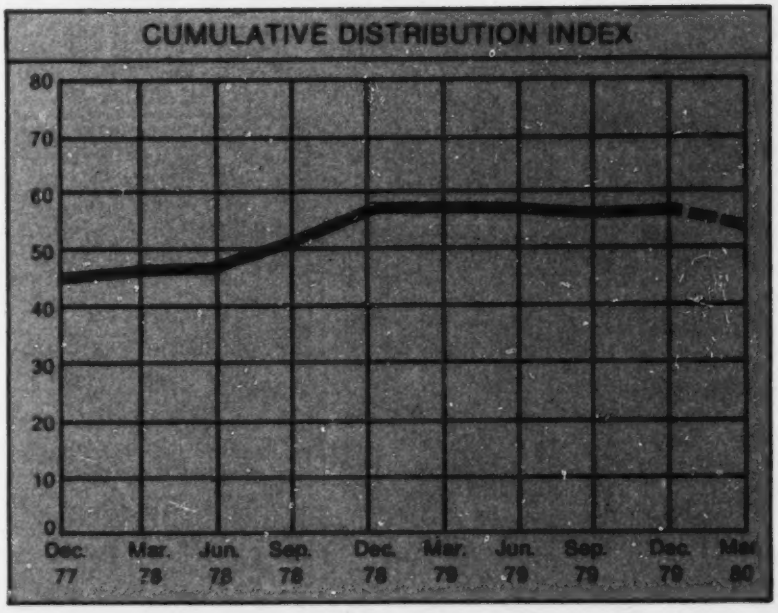




TRENDS IN THE DISTRIBUTION INDUSTRY

(Percent change over previous quarter)

Category	Fourth Quarter '77	First Quarter '78	Second Quarter '78	Third Quarter '78	Fourth Quarter '78	First Quarter '79	Second Quarter '79	Third Quarter '79	Fourth Quarter '79	First Quarter '80
Rail Shipments	1.6%	1.2%	2.0%	1.8%	1.9%	(.1%)	0.9%	1.0%	2.1%	(2.1%)
Air Shipments	1.8%	1.6%	2.1%	1.8%	1.5%	.5%	2.3%	2.1%	1.0%	(1.1%)
Truck Shipments	2.4%	2.9%	3.3%	2.2%	2.1%	1.7%	2.1%	1.1%	1.0%	(2.0%)
Water Shipments	.7%	.8%	.4%	.8%	.6%	1.5%	1.1%	.8%	(0.8%)	(1.0%)
Inventory Valuation	2.6%	2.8%	3.1%	4.1%	4.9%	5.8%	6.1%	6.2%	6.3%	6.1%
Warehouse Space Utilization	1.1%	(.5%)	1.2%	.4%	1.0%	1.6%	.9%	3.1%	4.4%	4.2%
Equipment Expenditures	1.3%	1.1%	1.8%	1.2%	.9%	.2%	.1%	(.5%)	.4%	(4.1%)
Employment	.9%	.5%	.9%	1.3%	1.1%	(.3%)	(.3%)	(.3%)	.2%	(0.1%)
General Distribution Index	2.9%	2.9%	3.2%	2.5%	2.8%	1.8%	1.8%	1.8%	1.8%	-4.3%

DISTRIBUTION COSTS FORECAST

By Dr. Bernard J. LaLonde, Riley Professor of Marketing and Logistics, and Martha Cooper, Research Associate, The Ohio State University

This new section was added to our annual survey of distribution career patterns *(See DISTRIBUTION, November 1979)*. Since inflation has plagued the distribution budgeting process, it was decided to survey distribution executives on their forecast of behavior for significant distribution cost components. Detailed cost forecasts by industry are presented below for 1979 to 1980, along with similar figures for forecasts made last year. It is significant for planning purposes that every key budget item was forecasted to increase during 1980 at a rate higher than for 1979.

FORECASTED COST INCREASES BY INDUSTRY AND KEY BUDGET ELEMENT—1978 to 1979**

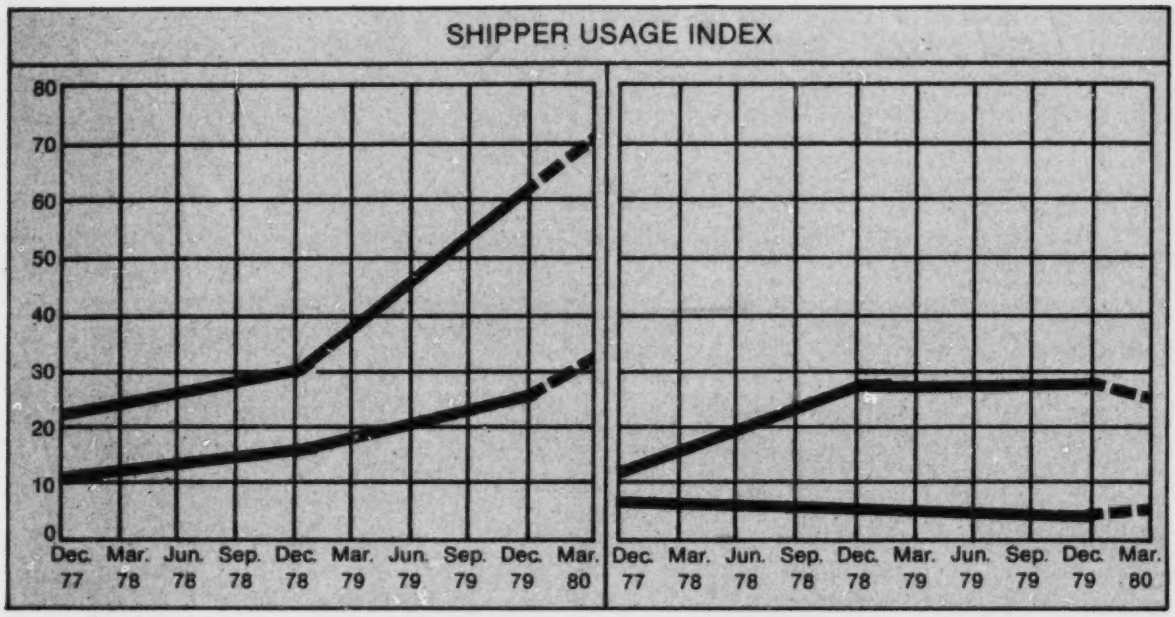
KEY BUDGET ELEMENT	FOOD	CHEMICALS & PLASTICS	ELECTRONICS	APPLIANCES	PHARMACEUTICAL	PAPER	MACHINE TOOLS & MACHINERY	METALS & METAL WORKING	SPORTING GOODS
PRICES & RATES									
Motor Carrier-LTL	13.6%	13.7%	11.1%	14.1%	12.0%	14.2%	8.0%	12.3%	11.3%
Motor Carrier-TL	10.9%	9.5%	7.0%	12.3%	17.5%	9.5%	6.5%	9.0%	8.3%
Private Carriage	9.3%	8.2%	5.0%	11.0%	9.5%	10.5%	5.0%	8.0%	*
Contract Carriage	10.4%	11.5%	*	*	9.0%	8.6%	*	*	8.1%
Railroad Rates-CL	10.5%	5.8%	*	*	9.0%	11.3%	*	12.0%	6.0%
Railroad Rates-Piggyback	9.0%	8.0%	*	12.3%	13.5%	9.5%	*	10.0%	6.6%
Warehousing Costs-Corporate	8.3%	7.8%	9.5%	6.8%	9.0%	11.2%	7.5%	9.5%	7.0%
Warehousing Costs-Public Warehouse	8.4%	7.6%	*	6.0%	12.5%	10.0%	*	6.5%	7.0%
Small Shipments (under 500 lbs.)	*	*	12.1%	9.5%	14.5%	15.0%	10.5%	15.0%	10.0%
Small Shipments (under 100 lbs.)	*	*	12.0%	9.2%	16.5%	15.0%	7.0%	16.5%	8.7%
ACQUISITION, PROCUREMENT COSTS									
Average Cost Per Gallon-Diesel	32¢	29¢	31¢	30¢	*	*	*	*	*
Average Cost Per Gallon-Gasoline	34¢	34¢	*	45¢	*	*	*	*	*
Warehouse-Construction Cost	11.1%	21.7%	*	7.5%	*	*	15.0%	14.0%	12.5%
Warehouse-Heating/Cooling Expense	11.8%	15.7%	9.0%	*	15.0%	15.0%	18.0%	10.0%	12.5%
Trucking Cost-Lease Expense	9.5%	17.2%	*	*	*	11.0%	13.0%	12.0%	5.0%
Trucking Cost-Maintenance Expense	9.4%	*	*	*	*	10.0%	8.0%	15.0%	10.0%
Material Handling-Pallets/Slipsheet	12.3%	14.5%	11.0%	*	15.0%	6.0%	7.5%	8.5%	8.0%
Material Handling-Lift Truck, etc.	10.5%	20.0%	8.0%	9.0%	10.0%	7.5%	15.0%	11.0%	8.3%
TOTAL DISTRIBUTION EXPENSE	9.8%	8.1%	10.8%	*	9.5%	11.0%	8.5%	12.0%	11.3%

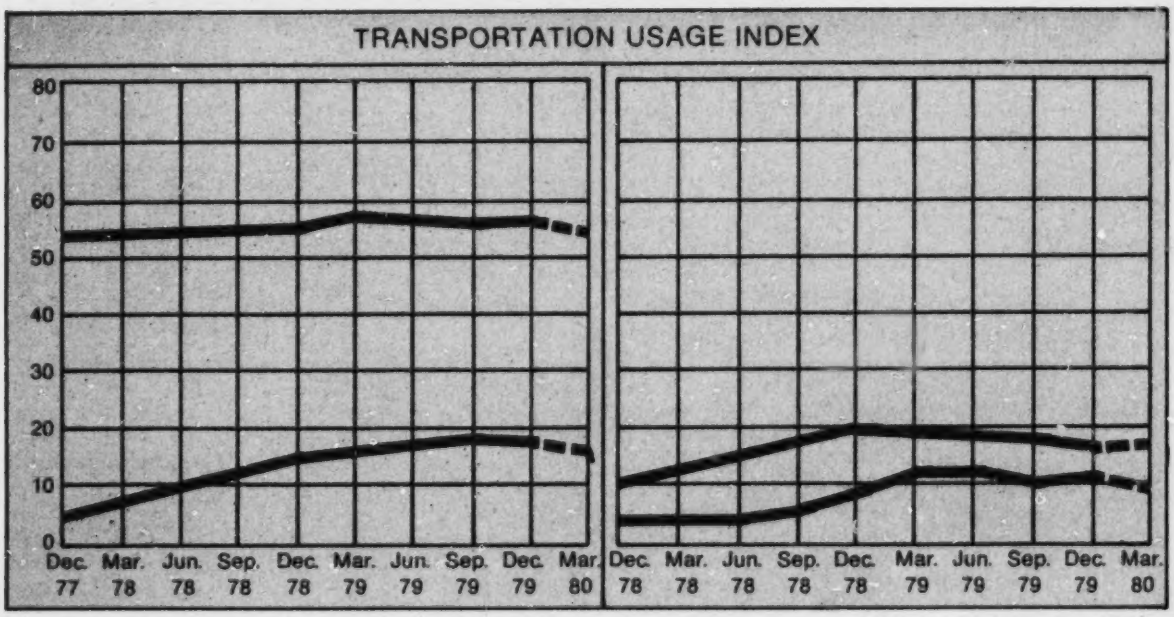
FORECASTED COST INCREASES BY INDUSTRY AND KEY BUDGET ELEMENT—1979 to 1980**

KEY BUDGET ELEMENT	FOOD	CHEMICALS & PLASTICS	ELECTRONICS	APPLIANCES	PHARMACEUTICAL	PAPER	MACHINE TOOLS & MACHINERY	METALS & METAL WORKING	SPORTING GOODS
PRICES & RATES									
Motor Carrier-LTL	14.9%	16.2%	12.0%	17.3%	15.0%	12.0%	12.0%	15.0%	14.5%
Motor Carrier-TL	13.2%	11.6%	8.5%	13.5%	15.2%	7.0%	8.0%	10.3%	11.3%
Private Carriage	10.2%	12.0%	6.0%	9.5%	*	6.0%	7.0%	10.0%	*
Contract Carriage	11.8%	14.0%	*	10.0%	10.7%	8.5%	*	*	10.0%
Railroad Rates-CL	11.7%	10.6%	*	*	10.0%	11.5%	*	12.0%	6.0%
Railroad Rates-Piggyback	10.5%	9.5%	12.0%	10.6%	13.3%	9.0%	*	12.0%	8.0%
Warehousing Costs-Corporate	9.7%	*	9.5%	7.5%	10.0%	11.0%	9.0%	12.5%	9.0%
Warehousing Costs-Public Warehouse	10.0%	6.5%	6.0%	9.2%	12.7%	12.5%	*	10.0%	9.0%
Small Shipments (under 500 lbs.)	*	*	9.3%	12.5%	15.0%	15.0%	15.5%	17.5%	12.0%
Small Shipments (under 100 lbs.)	*	*	9.0%	10.0%	18.3%	15.0%	9.0%	19.0%	10.6%
ACQUISITION, PROCUREMENT COSTS									
Average Cost Per Gallon-Diesel	26¢	25¢	21¢	24¢	*	41¢	*	*	*
Average Cost Per Gallon-Gasoline	27¢	18¢	32¢	*	*	32¢	*	*	*
Warehouse-Construction Cost	12.6%	20.3%	11.0%	9.0%	*	*	15.0%	12.0%	20.0%
Warehouse-Heating/Cooling Expense	11.2%	17.5%	7.5%	*	15.0%	18.0%	20.0%	12.5%	21.0%
Trucking Cost-Lease Expense	9.9%	15.0%	*	*	*	17.5%	14.0%	15.0%	15.0%
Trucking Cost-Maintenance Expense	8.7%	9.3%	*	*	*	12.0%	11.0%	20.0%	20.0%
Material Handling-Pallets/Slipsheet	10.5%	17.0%	9.0%	*	15.0%	8.0%	8.5%	7.0%	8.3%
Material Handling-Lift Truck, etc.	10.1%	13.8%	8.3%	9.3%	10.0%	10.0%	14.0%	13.5%	10.3%
TOTAL DISTRIBUTION EXPENSE	10.6%	9.3%	8.2%	*	12.0%	11.0%	8.5%	13.0%	15.6%

* Incomplete data

** Last day of 1979 to last day of 1980





nated and will the burden for short hauls fall on the shipper? What will be the employment impacts of deregulation on the distribution industry? Will traffic departments be larger or smaller? These and other questions will not be answered for a few years and the distribution manager will have the task of managing his operation in an uncertain environment. In the case of one distribution manager, the regulatory issue will not be an easy one to resolve. "For my company, the whole deregulatory situation is a bag of worms. We don't know what to expect? We ask our carriers and they don't know. We ask the regulators and they don't know. We even ask our lawyers and they don't even try to give us an answer. The 1980s should present more of the same until the whole issue is resolved. I don't know who is going to be regulated first, but whoever it is, it will take time for my company to adjust its service levels, accordingly. The whole deregulatory thing is without parallels and we will have to cope with it in the months to come." Good luck.

Forecasting and planning for the future is not an easy task, but with the high level of uncertainty emerging for the 1980s, distribution managers can not longer afford to be "brush fire managers." Coping with the changes in the 1980s should make the distribution manager's job one of the more important ones in American Industry in the decade ahead. ■

NOTE

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Chilton's

JANUARY 1980

C 2150-1

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